

Statement For The Record
of the American Federation of State, County and Municipal Employees
for the April 12, 2000 Hearing of the
Committee on Commerce, Science and Transportation
United States Senate
on The Extension of Internet Tax Freedom Act, S. 2255

The American Federation of State, County and Municipal Employees (AFSCME) submits the following statement for the hearing record in opposition to the amendment to the Internet Tax Freedom Act (S. 2255) to extend the moratorium through calendar year 2006.

The originally-enacted Internet Tax Freedom Act (47 U.S.C. 151) imposed a three-year ban, ending September 30, 2001, on any new state and local taxes on Internet access and multiple or discriminatory taxes on electronic commerce. The practical effect of this law has been to exacerbate the existing de facto tax-exempt status of most such remote sales that result from the inability of states to collect sales taxes from purchases made by state residents from Internet and catalog sales. As a result, AFSCME respectfully urges that the moratorium be allowed to expire in September 2001 and not be extended through calendar year 2006 for the following reasons:

The current moratorium does not expire for nearly 18 months. This provides time for the states to continue their work to simplify their sales tax systems, using a combination of technology-based software systems and administrative systems. The states are demonstrating that they can attack this challenge in a constructive and cooperative fashion. Congress should not arbitrarily constrain these efforts.

State and local governments already may be losing on the order of \$5 billion in sales tax revenues annually from their inability to tax most mail-order sales. With Internet sales growing rapidly, these governments could be losing an additional \$10 billion annually by 2003 if Internet purchases remain effectively tax-exempt.¹ Revenue losses would continue to mount thereafter, as Internet sales grow over time.

The loss of revenue will significantly impair the ability of states and localities to meet demands for education funding and other critical services. This scenario is particularly troubling in the context of education. There is agreement that primary and secondary education in the United States is in need of constant improvement so that our children receive the foundation that will allow them to fill the demand for high-skilled, well-educated workers in the information economy. Improving the education system requires investment. In fact, state education budgets consume 35 to 40 percent of state revenues. It is ironic that the Internet, the very tool fostering today's high-tech explosion, stands to play a pivotal role in the states' inability to fund the desperately needed improvements in the education system.

Main Street retailers will be at risk of losing considerable business to remote sellers so long as they must add sales tax to their prices at the cash register while Internet and mail-order merchants can sell

¹ Center of Budget and Policy Priorities (February, 2000)

tax-free. There is evidence that this tax advantage is already distorting retail competition by compelling large retail chains to reorganize their operations solely to be able to compete with their tax-exempt Internet rivals.

For these reasons, AFSCME opposes the extension of the moratorium and supports enforcement and active collection of existing sales tax due on remote purchases.